

Message Text

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47

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

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DRC-01 /180 W

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R 161050Z AUG 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC 9409

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

AMCONSUL ZURICH

C O N F I D E N T I A L BERN 3060

E. O. 11652: GDS

TAGS: EFIN, SZ

SUBJECT: SWISS BANK VIEWS RE EUROCURRENCY MARKET

1. SUMMARY. SWISS BANKERS CONCEDE EUROCURRENCY MARKET CONTINUES PLAY VITAL ROLE IN RECYCLING FINANCIAL FLOWS BUT ARE CONCERNED RE ADEQUACY AND STRUCTURE OF MARKET TO HANDLE INCREASING VOLUME TRANSACTIONS. END SUMMARY.

2. IN CONVERSATIONS AUGUST 14 WITH CEA MEMBER FELLNER AND EMBOFF, SENIOR OFFICIALS THREE MAJOR SWISS BANKS, A LEADING PRIVATE BANK, AND SWISS NATIONAL BANK (SNB) EXPRESSED CONCERN RE ABILITY PRIVATE MARKETS ALONE TO ACCOMPLISH RECYCLING OF FUNDS WHICH WILL INCREASINGLY
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BE FLOWING TO AND FROM OIL PRODUCER COUNTRIES. COMMERCIAL

BANKERS WOULD LIKE SEE GREATER INTERNATIONAL CENTRAL BANK INTEREST IN EUROCURRENCY MARKETS BUT RECOGNIZE DIFFICULTY FOR EVEN THOSE ENGAGED IN MARKET TO KNOW PRECISELY WHAT IS HAPPENING. BANKERS ALL AGREED THAT EMERGENCY CONTINGENCY PLANNING WAS HIGHLY DESIRABLE ALTHOUGH THEY DIFFER AS TO WHETHER ONLY CENTRAL BANKS, AND IS SO WHICH CENTRAL BANKS, SHOULD BE STUDYING SITUATION OR WHETHER COMMERCIAL BANKERS SHOULD ALSO BE DIRECTLY INVOLVED SO AS TO CONTRIBUTE PRACTICAL EXPERIENCE. PARTICULARLY OF CONCERN WERE SUCH POTENTIAL PROBLEMS AS CONSORTIA BANKS OR OTHERS WITHOUT CLEARLY IDENTIFIED PARENT BANK FOR WHICH HOME COUNTRY CENTRAL BANK WOULD PRESUMABLY BE RESPONSIBLE. OTHER CONCERNS INCLUDED BURDEN PLACED ON EUROCURRENCY MARKET BY LARGE LOANS TO ITALY, AND TO ONLY SLIGHTLY LESSER EXTENT UK, AND EFFECT SERIOUS BANKING AND/OR FINANCIAL CRISIS IN SUCH COUNTRY WOULD HAVE ON OVERALL MARKET.

3. BANKERS NOTED THAT PARTLY AS RESULT HERSTATT COLLAPSE AND WAY CLOSURE WAS HANDLED INTERNATIONAL FINANCIAL TRANSACTIONS HAVE RECENTLY BECOME INCREASINGLY SELECTIVE SO THAT BIG THREE SWISS BANKS ARE DEALING ONLY WITH THEIR LARGE COUNTERPARTS ELSEWHERE. FOREIGN EXCHANGE AND OTHER TRADING CONTINUES BE VERY CAUTIOUS WITH LITTLE FORWARD POSITIONING. ONE BANKER NOTED THAT HIS BANK HAS "ENOUGH" EURO DEPOSITS AND HAS DIFFICULTY FINDING GOOD OUTLET FOR LOANABLE FUNDS. NOTING NEED PAY CLOSE REGARD TO STRUCTURE BALANCE SHEET ASSETS AND LIABILITIES, HE NOTED SOME OIL PRODUCER SHORT-TERM DEPOSITS HAVE THUS BEEN REJECTED. IN OTHER CASES MAJOR SWISS BANKS ARE PAYING 1 PERCENTAGE POINT BELOW EURO RATES, WHILE SMALLER BANKS ARE FORCED PAY PREMIUM NOW TO GAIN NEW DEPOSITS.

4. SNB AND BANK OFFICIALS CONTINUE TO FEEL THAT BUNDESBANK HAD BADLY HANDLED HERSTATT CLOSURE BUT ARE HOPEFUL GREATER SUPPORT WILL BE AVAILABLE IF SIMILAR CASE OCCURS IN GERMANY. APPARENTLY, OPINION WAS WIDELY HELD IN ZURICH FOR SOME MONTHS THAT HERSTATT WAS IN DIFFICULTY, AN EXAMPLE CITED BY BOTH SNB AND COMMERCIAL BANKERS IN CONFIDENTIAL

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ARGUING FOR GREATER CONTACT BETWEEN CENTRAL BANKERS AND THOSE IN MARKET PLACE. ONE ZURICH BANKER NOTED WITH SATISFACTION RECENT CASE OF LARGE BAVARIAN BANK RUMORED TO BE IN DIFFICULTY WHICH HAD PLACED LARGE AD IN MUNICH NEWSPAPER DENYING FACTUALLY RUMORS AND CHALLENGING THOSE CIRCULATING THEM.
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